

K-12 EDUCATION

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, and is responsible for the education of approximately 6.4 million students enrolled in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of 989 school districts, 58 county offices of education, and approximately 9,220 schools. Nearly 306,000 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2006-07 Governor's Budget proposes \$66.2 billion in total funding for K-12 education, which reflects an increase of \$4.1 billion (6.6 percent) above the proposed 2005-06 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$10,996 in 2006-07, an increase of \$660 above the \$10,336 per-pupil rate in 2005-06.

Table 1				
K-12 Summary, All Funds				
(dollars in thousands)	2005-06 Revised	2006-07 Proposed	\$ Change	% Change
General Fund*	\$36,071,900	\$40,014,200	\$3,942,300	10.9
Local Property Taxes	12,092,000	12,223,600	131,600	1.1
Lottery Fund	1,021,800	1,021,800	0	0.0
Other State Funds	125,100	145,800	20,700	16.5
Federal Funds	7,456,000	7,469,200	13,200	0.2
Local Debt Service	1,499,900	1,499,900	0	0.0
Local Miscellaneous	3,855,400	3,855,400	0	0.0
Total Funds	\$62,122,100	\$66,229,900	\$4,107,800	6.6
Per Pupil Funding	\$10,336	\$10,996	\$660	

* General Fund includes Proposition 98 and Non-98 Funds, including STRS; G.O. Bond Debt Service; State Library; & Scholarshare Investment Board.

As indicated by Table 1, the \$66.2 billion for K-12 education includes \$40.0 billion (60.4 percent) from the state General Fund; \$17.6 billion (26.5 percent) in property taxes and other local revenues; \$7.5 billion (11.3 percent) in federal funds, \$1.0 billion (1.5 percent) in state lottery funds and \$145 million (0.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by \$3.9 billion (10.9 percent) and local property taxes increase by \$131.6 million (1.1 percent). Other state funds increases by \$20.7 million (16.5 percent). The budget also reflects a small increase of \$13.2 million (0.2 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005.

Proposition 98

Total Proposition 98 funding for K-14 education in 2006-07 is proposed at \$54.3 billion, an increase of \$4.3 billion, or 8.7 percent, over the revised 2005-06 budget. (See Table 2) According to the Administration, this level of funding provides \$1.7 billion more than required to meet the Proposition 98 minimum funding guarantee in 2006-07. This level of funding also includes \$426 million in Proposition 98 funding above the minimum guarantee for implementation of after school programs required by Proposition 49.

Table 2

K-14 Proposition 98

Summary (dollars in thousands)	2004-05	2005-06	2006-07 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$42,122,787	\$44,627,177	\$48,356,408	3,729,231	8.4
Community Colleges	4,792,007	5,242,136	5,848,062	605,926	11.6
State Special Schools	41,509	42,567	43,177	610	1.4
Dept. of Youth Authority	35,858	45,780	42,589	-3,191	-7.0
Dept. of Developmental Services	10,672	10,217	9,995	-222	-2.2
Dept. of Mental Health	8,400	13,400	13,400	0	0
Am. Indian Education Centers	4,476	4,698	4,322	-376	-8.0
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
<i>Prop 98 Fund Source</i>					
State General Fund	\$33,994,860	\$36,310,868	\$40,455,466	\$4,144,598	11.4
Local Property Taxes	13,020,849	13,675,107	13,862,487	187,380	1.4
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
K-12 Enrollment-ADA*	5,982,000	6,010,000	6,023,000		
K-12 Funding per ADA*	\$7,042	\$7,428	\$8,052	\$660	8.9
* Average Daily Attendance					

Of the \$54.3 billion in Proposition 98 spending for K-14 education in 2006-07, \$48.4 billion is appropriated for K-12 schools and \$5.8 billion is for Community Colleges. The K-12 share of Proposition 98 funding increases by 3.7 billion (8.4 percent) and the Community Colleges share increases by \$605.9 million (11.6 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 13,000 in the budget year, an increase of 0.2 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$8,052 in 2006-07, an increase of \$660 (8.9 percent) over the \$7,428 per pupil funding in 2005-06.

Governor's Strategic Growth Plan for Education

The Governor is proposing a comprehensive 20-year plan to rebuild California's infrastructure system, which includes K-12 and higher education, as well as transportation, air quality, water, public safety, courts and other public service infrastructures. The Governor's Budget Summary lays out the first 10 years of a 20-year investment plan for the state. Specifically, the Governor proposes \$68.0 billion in infrastructure investments that would be financed through General Obligation (GO) bonds. Of this amount, \$38.0 billion would be dedicated to improving and expanding education facilities -- \$26.3 billion for K-12 education and \$11.7 billion for higher education. The Governor's 10-year infrastructure plan for education is summarized below.

Summary of Governor's Education Facility Bond Proposal

(in billions)

	2006*	Nov. 2008	Nov. 2010	Nov. 2012	Nov. 2014	Total Proposed
	(K-16)	(K-12)	(K-16)	(K-16)	(K-12)	
K-12 Education						
New Construction*	\$1.7	\$3.0	\$2.0	\$1.7	\$1.0	\$9.4
Modernization*	3.3	1.2	2.2	2.4	3.1	12.1
(Small High Schools) *	(.500)	(.420)	(.500)	(.407)	(.407)	(2.2)
Charter Schools	1.0	0.0	0.5	0.5	0.5	2.4
Career-Technical Education	1.0	0.0	0.5	0.5	0.5	2.4
Total K-12 Education	\$7.0	\$4.2	\$5.1	\$5.0	\$5.0	\$26.3
Higher Education						
UC/Hastings**	\$1.9	\$0.0	\$1.0	\$1.2	\$0.0	\$4.2
CSU	1.7	0.0	0.8	1.2	0.0	3.8
CCC	1.7	0.0	0.8	1.2	0.0	3.8
Total Higher Education	\$5.4	\$0.0	\$2.6	\$3.7	\$0.0	\$11.7
Total Bond Proposal	\$12.4	\$4.2	\$7.7	\$8.7	\$5.0	\$38.0

* Regularly scheduled election.

** Authorizes up to \$2.2 billion in new construction and modernization funds over the ten year period for Small High Schools.

*** Requires \$200 million from both 2006 and 2010 bond for UC to be used for capital improvements to expand/enhance medical education programs with an emphasis on telemedicine.

The Governor proposes that the Legislature approve the entire 10-year state infrastructure plan as a single package, although individual bond measures would be scheduled to appear before voters

over a series of elections from 2006 through 2014. The Governor's education bond proposals for the 2006 ballot are currently contained in two bills – SB 1164 (Runner) and AB 1836 (Daucher). The Governor proposes to combine K-12 and higher education bond measures on the same ballot, although the 2008 and 2014 bonds would include K-12 bonds only.

Budget Year Highlights

Overall Funding Increase. The Governor proposes a total of \$48.4 billion in Proposition 98 funding for K-12 schools in 2006-07, an increase of \$3.7 billion (8.4 percent) above the 2005-06 budget. As proposed, the budget provides \$8,052 per-pupil in Proposition 98 funding in 2006-07, an increase of \$660 (8.9 percent) per-pupil above the 2005-06 budget.

Growth and COLA Fully Funded. The Governor proposes to spend **\$2.3 billion** to fully fund K-12 enrollment growth and cost-of-living adjustments (COLA) in 2006-07, as follows:

- **Enrollment Growth.** The budget provides **\$156.0 million** to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides \$67.4 million for revenue limit apportionment growth (includes \$13.2 million increase for declining enrollment districts); \$14.8 million for child care development; \$6.5 million for special education; and \$67.3 million for all other categorical programs. The budget estimates K-12 ADA growth of 0.21 percent.
- **Cost-of-Living Adjustments (COLAs).** The budget provides **\$2.3 billion** to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 5.18 percent COLA for revenue limits (\$1.66 billion); special education (\$161.6 million); child care and development (\$70.2 million); and various other categorical programs (\$392.0 million) that either require a COLA pursuant to state statute or that traditionally receive a COLA.

Deficit Factor Payments. The Governor's Budget proposes an additional **\$205 million** to pay down the revenue limit deficit factor to compensate for revenue limit reductions (overall reduction of 1.2 percent and foregone COLA of 1.8 percent) that originated in the 2003-04 budget. (This restores approximately two-thirds of the outstanding deficit factor.) The 2004-05 budget appropriated \$270 million as partial payment of the deficit factor obligation; the 2005-06 budget appropriated an additional \$406 million. This proposal provides another \$205 million bringing the deficit factor to 0.299 percent for school districts (\$200 million) and 0.106 percent for county offices of education (\$5 million). Under the Governor's proposal, the outstanding deficit factor obligation would total approximately \$100 million.

Revenue Limit Equalization. The Governor proposes a **\$200 million** increase in funding to equalize school district revenue limits. Revenue limits are calculations intended to provide the same level of general purpose funding to school districts and county offices of education. However, some differences in revenue limit funding levels exist because of historical factors. The Administration proposes to continue the recent methodology to level up lower revenue limit districts until the state achieves equity for 90 percent of the state's ADA by size (large and small districts) and type (unified, high school, and elementary). (Some extremely high revenue limit districts would continue to receive higher revenue limit.) The Administration estimates that the

additional \$200 million would move the state half way to fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The 2004-05 budget appropriated \$110 million for revenue limit equalization, using the same calculations now being proposed by the Governor.

Proposition 98 Reversion Funds. The Governor proposes appropriating **\$213.6 million** in one-time funds in 2006-07 from the Proposition 98 Reversion Account for a variety of programs. Several of these proposals will be discussed further below and include the following:

- \$106.6 million for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006;
- \$63.7 for CalWorks Stage 3 child care adjustments;
- \$18.7 million for prior-year state obligations for K-12 mandate claims and interest;
- \$9.6 million for the Teacher Credentialing Block Grant to fund an additional 2,600 teachers in the Beginning Teacher Support and Assessment system in the current year;
- \$9 million for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.
- \$3 million for a county office of education to contract with an outside agency to recruit highly qualified teachers to schools in the lowest three deciles of the 2004 Academic Performance Index. This funding is related to the School Enrichment Block Grant program funded in the 2005-06 budget.
- \$1.1 million for the purpose of funding the Chief Business Officer Training Program established pursuant to Chapter 356, Statutes of 2005.
- \$1 million for Principal Training Program, established by Chapter 697, Statutes of 2001. This program has been renamed the Administrator Training Program.
- \$500,000 for high school coaches training pursuant to Chapter 673, Statutes of 2005. Funding shall be allocated on the basis of 2004-05 high school enrollment data with variable grant levels based upon school size;
- \$39,000 to pay for reimbursable mandate claims costs relating to attendance accounting per Chapter 855, Statutes of 1997.

Annual Mandate Payments. The Governor proposes to provide **\$133.6 million** to cover the annual costs of mandated education programs for K-12 school districts and county offices of education and for community colleges in 2006-07. The Governor's proposal reverses the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings. Mandated costs for K-12 schools are estimated at approximately \$175 million a year by the Department of Finance; the Legislative Analyst's Office estimates annual costs closer to \$250 to \$300 million a year. Under the Governor's proposal, if \$133.6 million is insufficient to cover all eligible claims for the year, the amount allocated to K-12 schools and community colleges will be prorated by the State Controller.

Prior-Year Mandate Payments. The Governor also proposes to provide **\$151.7 million** in one-time funds – \$18.7 million from the Proposition 98 reversion account and \$133 million in Proposition 98 settle-up funds – to pay for prior year education mandate claims. The \$133 million in settle-up funds would be allocated to K-12 school districts and county offices of education on the basis of payment for the oldest claims first. It is not clear how the \$18.7 million would be allocated for prior-year claims. The Legislative Analyst’s Office estimates that the cumulative costs for unpaid, prior-year claims will total \$1.46 billion for K-12 schools and community colleges by the end of 2005-06. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

New or Expanded Program Initiatives. The Governor’s *Budget Summary* proposes **\$413 million** for K-12 schools to expand several programs that were funded for the first time in the 2005-06 budget and to provide funding for several additional, new programs in 2006-07. These proposals include:

- **Recruiting and Retaining Qualified Teachers and Principals.**
 - ✓ **School Enrichment Block Grants.** The Governor proposes **\$100 million** for School Enrichment Block Grants for school districts and charter schools to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). This block grant program was funded with up to \$49.5 million in one-time funds in the 2005-06 budget. The Governor proposes to continue and expand this program in 2006-07. Funding is proposed at the rate of \$50 per pupil with minimum school site grants of \$5,000. Funding can be expended for the general purposes of improving the school environment and culture, and may include: assuring a safe and clean environment; forgiving student loans for teachers and administrators; and providing differential pay, signing bonuses, housing assistance and professional development for teachers and administrators.
 - ✓ **Beginning Teacher Support and Assessment (BTSA).** The Governor proposes **\$65 million** to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the API. As proposed, the additional year of induction support would emphasize diagnostic student assessments, differentiated instruction, classroom management, and parental involvement. First priority for funding would be provided for new teachers in their third year of teaching. New teachers would receive the full rate of funding (\$3,865). Second priority would be for more experienced teachers who are new to decile 1-3 schools and who volunteer to participate in the program. More experienced teachers would receive funding at half the full rate (\$1,933).
- **Arts and Music Block Grant for K-8 Schools:** The Governor proposes **\$100 million** to provide an Arts and Music Block Grant to K-8 schools in school districts, county offices of education and charter schools. The new block grant would provide funding for standards-aligned Fine Arts instruction (art, dance, music, theater/drama) for students in elementary and middle schools. Funding is proposed at a level of \$20 per pupil, with minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with more than 10 students. Funding may be used for a variety of purposes to further standards-aligned arts and

music including hiring additional staff; purchasing of new materials, books, supplies and equipment; and providing staff development.

- **Addressing Childhood Obesity/Improving Physical Education in K-8 Schools:**

- ✓ **Physical Education Block Grant.** The Governor proposes **\$60 million** in physical education block grants to school districts and charter schools for the purpose of increasing physical activity and implementing standards-based physical education programs in elementary and middle schools. Funding will provide minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with 11 to 420 students. All remaining funds will be allocated, on an equal per pupil basis, to school sites with more than 420 students. Funding may be used for hiring qualified staff, reducing class size, and providing standards-aligned professional development and curricula.

- ✓ **Physical Education Teacher Incentive.** The Governor proposes **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$25,000 per school site, which would be selected randomly with considerations for school type, size, and location. Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses.

- **Digital Classroom Grant Program.** The Governor proposes **\$25 million** to provide one-time Digital Classroom Block Grants to school districts and charter schools to advance the effective use of educational education technology in order to improve classroom instruction and student achievement. Each school district or charter will receive \$3,000 per eligible classroom. As a condition of funding, school districts and charter schools are required to develop a plan, which must be approved by their governing board, specifying how funds will be used in eligible schools. The Superintendent of Public Instruction will allocate statewide funds to locally prioritized schools in school districts of different sizes and types within each of the state's 11 California Technology Assistance Project regions. Funding is provided on a one-time basis for individual schools; however, the Department of Finance anticipates that annual appropriations for the program will continue until all classrooms in the state have received funding. Funding can be used for one-time expenditures including computer hardware or software, staff development or other technology related expenditures that improve classroom instruction.

- **Student Assistance for Passage of the California High School Exit Exam (CAHSEE):** The Governor proposes to provide an additional **\$20 million** to provide intensive instruction and services to assist eligible 12th grade students pass the CAHSEE in 2006-07. This proposal doubles the \$20 million in new funds provided for the program in 2005-06, as established by Chapter 234, Statutes of 2005. Intensive instruction and services may include hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction. Eligible pupils are defined as 12th graders in the graduating class of 2006 who have not passed one or both sections of the CAHSEE. The

current program allocates \$600 per eligible pupil. Additional funds proposed in the budget provide a higher level of funding - \$631 per student – and allow additional eligible students to be served, including students in the graduating class of 2006 and 2007. The current program gives funding priority to schools with the highest proportion of students who have not passed CAHSEE. The Governor’s budget-year proposal establishes separate rankings for comprehensive high schools and all other high schools in determining funding priority, setting aside \$35 million for students in comprehensive high schools and \$5 million for students in continuation, juvenile court, county community day, adult education and alternative schools.

- **Providing Fruits and Vegetables to Schools:** The Governor proposes **\$18.2 million** in ongoing funding for the California Fresh Start Pilot Program, as established by Chapter 236, Statutes of 2005. This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school meals that include one or two servings of fruits and/or vegetables. Funding is available for schools in school districts and charter schools. Total funding for the program is tied to the number of school breakfast meals served by schools. The 2005-06 budget included \$18.2 million in one-time funds for this pilot program.
- **Career-Technical Education:** The 2005-06 budget provided \$20 million for a new program to improve and expand career-technical education courses at high schools, regional occupational centers and the California Community Colleges. The Governor proposes an additional **\$30 million** for this program – established in Chapter 352, Statutes of 2005 – bringing total funding to \$50 million in 2006-07. This new program links K-12 and community college programs with the goal of improving pathways to the workforce and higher education. Under what is referred to as the “2 plus 2” program, students spend two years in secondary education programs that are articulated with two year programs at the community colleges. *Funding for the Career Technical Education program is included in the Community Colleges budget. (See Community Colleges below.)*

Federal Carryover Funds for School and District Accountability. The Governor proposes to appropriate **\$82 million** in federal carryover funds for low performing schools and districts identified as needing “program improvement” under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools and districts. The Legislature appropriated these carryover funds back to their originating programs in the 2005-06 budget when the total carryover amount equaled \$74.5 million. Subsequently, the Governor eliminated funds for these purposes and set the funds aside for a new program to assist low-performing schools and districts, to be determined through future legislation. The amount of federal carryover has now grown to \$82 million from the following programs: \$24.3 million for Title I-Basic Grants; \$22.2 million for Title I-School Improvement; \$19.2 million for Title I-Migrant Education; and \$16.1 million for Title V-Comprehensive School Reform.

Charter Schools Categorical Block Grant: The Governor provides a **\$36 million** increase in funding for the charter school categorical block grant as a baseline adjustment to implement statutory funding reforms enacted pursuant to Chapter 359, Statutes of 2005. This augmentation

reflects a \$400 increase in the categorical block grant level – the first of two increases required by the new statute. The rate will increase to \$500 per ADA in 2007-08.

K-12 High Speed Internet Network. The Governor does not provide funding for the K-12 High Speed Internet Network in 2006-07, but does maintain the program item in the budget. Provisional budget language for that item states that budget decisions for the program will be made pending the result of the audit currently being conducted by the Joint Legislative Audit Committee (JLAC). The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High Speed Network and instead authorized funding at the same level from unused funds previously appropriated for Internet connectivity and network infrastructure for grades K-12 schools and county offices of education. Expenditure of these funds was conditioned on commencement of the JLAC audit.

Special Education Adjustments. There are no major adjustments to the special education program in 2006-07 other than statutory growth and COLA, which provides an overall increase of **\$168.1 million** – \$6.5 million for growth (0.21 percent) and \$161.6 million for COLA (5.18 percent). The Governor projects a very small increase in federal funds – **\$15.9 million** – based upon early estimates of limited new federal funding to states. This amount may need to be adjusted downward at May Revise to reflect the actual decline in federal special education grants to states contained in the final Labor/HHS/Education appropriations bill for FFY 2006. The Governor continues **\$52.6 million** in funds provided in the 2005-06 budget for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials.

Special Education – Mental Health Related Services. The Governor maintains **\$100 million** in special education funding for mental health related services in 2006-07 budget. This continues \$69 million for AB 3632 services provided by county mental health agencies and \$31 million for pre-referral services for children and youth with exceptional needs. The Governor proposes to continue allocation of these funds to SELPAs on a per ADA basis.

State Operations – Special Education Due Process Deficiency. The Governor proposes **\$4.5 million** in General Fund (Non-Proposition 98) to cover additional contract costs for administration of the statewide special education due process program in the current year. The due process program is required by federal law, and provides mediations and fair hearings to resolve disputes among parties. Special education due process services have been contracted out to a private provider since 1989 in California. The contract is currently being transitioned from this private provider to the Department of General Services, Office of Administrative Hearings. The budget currently provides \$10.1 million in federal special education funds to the Department of Education for the contract. The Governor is seeking an increase of \$4.5 million (45 percent) to cover unanticipated transition costs for the current contract. The Governor is seeking one-time funding through Budget Item 9840-001-0001 of the 2005-06 budget to cover this deficiency.

Major Issues

Proposition 98 Funding Level and Priorities. Some of the most difficult questions the Legislature faces this year is how set the level of funding for Proposition 98 in 2006-07 given the educational needs and priorities for K-12 education and available state revenues.

The Governor proposes a **\$4.3 billion increase** (8.7 percent) in Proposition 98 funds for K-12 school and community colleges in 2006-07. This assumes an overappropriation of **\$2.1 billion** to fund all proposed expenditures.

The Governor proposes an increase of **\$3.7 billion** (8.4 percent) for K-12 schools in 2006-07. Major adjustments and increases proposed by the Governor include:

- **Proposition 49 – After School Care: (\$426.2 million)**
- **Discretionary Funds: (\$2.7 billion)**
 - \$2.3 billion to fully fund K-12 enrollment growth and COLAs.*
 - \$205 million to reduce K-12 revenue limit deficits.*
 - \$200 million to partially equalize K-12 revenue limits.*
- **Funding for Annual Mandate Costs: (\$133 million)**
- **New/Expanded Categorical Programs: (\$413 million)**

In assessing the Governor's education package overall, the Legislature may want to consider the following issues and questions:

1. ***Discretionary v. Targeted Funding.*** The Governor proposes approximately \$2.7 billion in discretionary funding for K-12 education in 2006-07. In addition, the Governor proposes more than \$400 million in new or expanded program initiatives. What is the correct balance of discretionary funding, which provides general purpose funding to schools, versus more targeted funding that provides funds for specific purposes? General purpose funding gives local educational agencies flexibility in spending funds. Categorical funding provides funding for special groups of students, schools, purposes, etc. to reflect specific goals and priorities. In recent years, the Legislature and the Governor have acted to consolidate some categorical programs to simplify funding streams to schools. However, the Governor and Legislature have established new programs to address new issues, such as CAHSEE assistance funds for students and improvement and expansion of career-technical education. How can these interests be balanced in the proposed budget?
2. ***Reducing Existing Obligations v. Expanding/Funding New Programs.*** The Legislative Analyst has identified nearly \$1.8 billion in K-14 education funding obligations it refers to as on the "education credit card." These credit card debts include \$1.46 billion in cumulative mandate claims for K-14 education and \$290 million in revenue limit deficit factor payments. While the Governor proposes to buy down some of this debt in the budget year, the Governor

is also proposing more than \$400 million in ongoing funds for the expansion of several new programs and establishment of several other new programs in 2006-07. Should new programs be established before existing obligations are paid off?

3. ***One-Time v. Ongoing Funding.*** Nearly all of the Governor's proposed K-12 increases provide ongoing funding for ongoing purposes. In appropriating Proposition 98 funding in 2006-07 – especially appropriations above the minimum guarantee – what options exist for providing relief to education in the form of one-time funds? For example, payment of the \$1.46 billion in prior year mandate claims would provide additional funds for schools without creating ongoing budget pressures, eliminate existing debt (that the state pays interest on), and contribute additional funding for Proposition 98 settle-up.
4. ***Funding Allocations – Do They Reach Students, Schools & LEAs Equitably.*** New funds proposed by the Governor are allocated in a variety of different ways. Are these proposals delivering funds so that they actually reach students and schools? What can be done to assure that new funds follow students? Enrollment growth and COLAs are provided to school districts and county offices, as well as revenue limit deficit factor payments. As proposed, revenue limit equalization funds provide additional funding for an estimated 87 percent of school districts, based upon average daily attendance (not student enrollment) to reflect current attendance accounting practices; no funding is proposed for county offices of education. The Governor proposes to pay for prior-year claims based upon oldest claims first, and not some funding for all districts and county offices with claims. Some of the Governor's new initiatives are targeted to different types of schools – Enrichment Grants and BTSA funds are targeted to low-performing schools (API deciles 1-3) in school districts and county offices; arts and music grants are targeted to K-8 schools (not high schools) in school districts and county offices of education, (UC and CSU require, for admission purposes, one year of visual and performing arts); and PE grants are available to K-8 schools in school districts only. Digital classroom grants and Fruits and Vegetable funds are proposed for all K-12 schools – do these include state special schools and alternative schools as well? Charter schools are included in some, but not all proposals.

Williams Settlement – Emergency School Facilities: The Governor proposes \$107 million for emergency repairs of school facilities in school districts pursuant to the *Williams v. California* lawsuit settlement. Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the emergency school facility repairs account. This level of funding must continue in the budget every year until the state has provided a total of \$800 million. The 2005-06 budget appropriated \$196.0 million for emergency school facility repairs pursuant to the *Williams* settlement; however, demand from school districts has been extremely low to date. Potential expenditures for this program currently total only \$1.7 million based upon applications received by the State Allocation Board. There is likely to be significant excess funding for this program in the current year, which raises serious questions about the level of funding required for the program, as currently structured, in the budget year.

Federal Funding Losses to California. Federal education funds to California are expected to be flat or decline somewhat for most federal education grants programs in 2006-07 and are not yet reflected in the Governor's proposed 2006-07 budget. Without other budget action, these reductions will result in a loss of important resources for state and local educational agencies in 2006-07. The Governor's budget estimates that California will receive nearly \$7.5 billion in federal funds for K-12 education in 2006-07, which reflects an overall increase of \$13.2 million above the 2005-06 level. The Governor will propose updated budget estimates for federal programs at May Revise to reflected new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the one-percent government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005. While official estimates are not yet available for states, federal funds for most all education programs are expected to decline by at least one-percent. This is dramatic for some programs – such as special education and Title I grants for disadvantaged students – where significant annual increases have been the standard and provided valuable new funding to states and local educational agencies. Other programs are being cut more significantly, such as school improvement and innovations funding (NCLB Title I & V); educational technology; and safe and drug-free schools.

CAHSEE Assistance Funding. The graduating class of 2006 will be the first group of students in California that must pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10th grade. The exam includes two tests – English Language Arts and mathematics. The latest figures from CDE indicate that approximately 20 percent of high school seniors have not passed the English language arts exam and 20 percent have not passed the mathematics exam. It is not known how many students have not passed either or both. While passage rates have been increasing for students planning to graduate in 2006, there are likely to be significant numbers of students who do not pass CAHSEE this spring. The Governor proposes \$40 million to provide intensive intervention to students in the graduating classes of 2006 and 2007 who have not yet passed the CAHSEE. The Governor proposes continuation of another \$52.8 million in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. It is important to understand how these funds can be coordinated to provide intensive assistance to *all* eligible students. It is also important to know how the \$70 million appropriated in the current year for CAHSEE assistance has been utilized by schools and whether it has been effective in increasing passage rates. Was the level of funding provided appropriate for providing intensive services and how much would it cost to cover all eligible students in the state? For students who continue to fail, what obligations will schools have to continue education for these students? For example, under federal law, schools are obligated to serve special education students – the group with the highest proportion of students who have failed the CAHSEE – until students graduate or through 21 years of age.